

Chapter 3

Budgeting as a Tool for Sustainable Development

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ABSTRACT

Corporations are profit-oriented organizations. If they do not have enough profit, they cannot survive. The expectations and forecasts have a key role in decision making. Thorough those expectations and forecasts, a scenario is developed. If a scenario contains financials, it means that a budget is prepared. Budget is a kind of financial simulator of a business. Budgeting is a vital tool in financial management for sustainable development. Budgeting also maintains the effectiveness of capital and resource of the company. There is diversity in the budgets of each sector or each industry. Manufacturing, logistics, airlines, construction, hospitality, and others have sectoral differences in budgeting. In this chapter, objectives of budgeting, budgeting methods, steps in budgeting, sectoral differences, relationship between budgets, and strategic planning are discussed.

INTRODUCTION

Corporations measure their own development by using many tools and criteria. Some of them are market share, customer satisfaction, employee satisfaction, financial performance and financial position. Of course, all of them are worthwhile, but financials are much more important among them. Because corporations are profit oriented organizations. If they do not have enough profit, they can't survive. While a corporation maintains customer satisfaction and has a large market share, beside them if it can't have a good financial performance, it can't go on its life in the long run. In decision making process most of the managers uses the financial statements like balance sheet (statement of financial position), income statement, statement of cash flows and statement of changes in owners' equities. Those financial statements are very important in management. But all of them have historical data. The expectations and forecasts have a key role in decision making. Thorough those expectations and forecasts, a scenario is developed. In the case of a scenario contains financials, it means that a budget is prepared. Budget is a

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kind of financial simulator of a business. Budgeting is a vital tool in financial management for sustainable development.

Budgeting also maintains the effectiveness of capital and resource of the company. To be effective, a good budgeting system must provide for both planning, control and coordination. A good planning without effective control or a good control without effective coordination is time wasted.

There is a diversity in the budgets of each sector or each industry. Manufacturing, logistics, airlines, construction, hospitality and others, each of them has sectoral differences in budgeting.

To prepare a budget just for the coming period, is short term management. But living organizations corporations should have a strategy in the long run. In order to reach the targets, corporations should have a relationship between their strategy and budgets. Their investments should be in a coordinated manner with strategy. NGOs also need their own budget to reach their goals as much as corporations (Akkucuk & Sekercioglu, 2016).

In budgeting there are so many steps taken by businesses to achieve their planned levels of profits – a process called profit planning. Profit planning is accomplished by preparing numerous budgets. When they are brought together, they form an integrated business plan known as a master budget.

In this chapter, objectives of budgeting, budgeting methods, steps in budgeting, sectoral differences, relationship between budgets and strategic planning will be discussed.

OBJECTIVES OF BUDGETING

A budget is a comprehensive financial plan setting forth the expected route for achieving the financial and operational goals of an organization (Williams, Haka, Bettner & Carcello, 2008).

There are lots of objectives for budgeting. The main objectives can be described as follows:

- Planning,
- Coordination,
- Controlling.

The above objectives are indicated below.

Planning

One of the objectives of budgeting is to maintain planning. Budgeting is an essential step in an effective financial planning (Williams, Haka, Bettner & Carcello, 2008). In contemporary business life, there is enormous competition among the corporations. Hence, to maintain a sustainable development, each step of corporation should be well planned. In each plan there should be an alternative Plan B or Plan C. Of course, the financial needs and financial effects of a plan should be take place in this plan. Budgeting serves this need. Budgeting can also be called as financial planning. In order to prepare a budget, each action is planned in details. Revenues, expenses, cash flow, assets, liabilities and resources take place in this plan.

Accounting departments produce financial statements. The main financial statements are Balance Sheet (Statement of Financial Statement), Income Statement, Cash Flows Statement, Statement of Changes in Shareholders' Equities. Balance Sheet shows financial position at a specific date. Income

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